



BANK OF CANADA
BANQUE DU CANADA

Business Outlook Survey

Conducted by the Bank's Regional Offices

Results of the Summer 2009 Survey

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Overview

- The results of the summer survey indicate that businesses foresee an improvement in the economic outlook. In particular, the balances of opinion on both future sales and employment have turned positive. Nevertheless, firms expect their activity to recover only gradually, and they continue to be cautious regarding investment.
- Pressures on production capacity remain quite low. Overall, firms still expect input and output prices to grow at a slower pace over the next 12 months. Expectations for inflation over the next two years have increased and have moved back within the Bank's target range as fewer respondents expect inflation to be below 1 per cent.
- Although the balance of opinion still indicates tightening credit conditions, fewer firms reported tightening than in recent surveys.

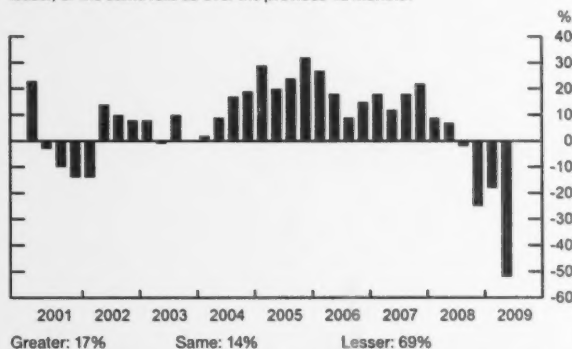
Business Activity

The balance of opinion on past sales has decreased significantly to a new record low (**Chart 1**), and a majority of firms reported an outright decline in their sales volumes over the past 12 months. Most of these firms expect at least some growth in their sales over the next 12 months. Consequently, after two surveys

Chart 1: The balance of opinion on past sales growth hit a record low . . .

Balance of opinion*

Over the past 12 months, did your firm's sales volume increase at a greater, lesser, or the same rate as over the previous 12 months?

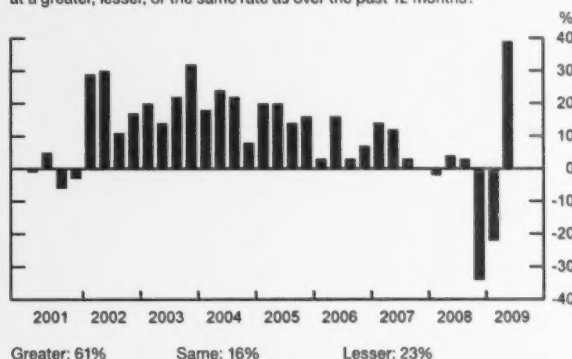


* Percentage of firms reporting faster growth minus percentage reporting slower growth

Chart 2: . . . but expectations are improving for future sales growth

Balance of opinion*

Over the next 12 months, is your firm's sales volume expected to increase at a greater, lesser, or the same rate as over the past 12 months?



* Percentage of firms expecting faster growth minus percentage expecting slower growth

The Business Outlook Survey summarizes interviews conducted by the Bank's regional offices with the senior management of about 100 firms selected in accordance with the composition of Canada's gross domestic product. The survey's purpose is to gather the perspectives of these businesses on topics of interest to the Bank of Canada (such as demand and capacity pressures) and their forward-looking views on economic activity. Additional information on the survey and its content is available on the Bank of Canada's website at <www.bankofcanada.ca/en/bos/index.html>. The summer 2009 survey was conducted from 25 May to 18 June 2009. The balance of opinion can vary between +100 and -100. Percentages may not add to 100 because of rounding.

The opinions expressed are those of the respondents and do not necessarily reflect the views or policies of the Bank of Canada. The method of sample selection ensures a good cross-section of opinion. Nevertheless, the statistical reliability of the survey is limited, given the small sample size.

that showed a quite negative outlook for future sales, firms expect sales growth to gradually pick up over the next year (**Chart 2**). Although firms' outlook for the U.S. economy has improved, for many respondents, sales expectations are still negatively affected by weak U.S. demand. Uncertainty related to sales prospects has declined slightly, and businesses perceive the risks as being more balanced than in recent surveys.

The balance of opinion on investment in machinery and equipment remains negative, indicating that firms expect to invest less over the next 12 months (**Chart 3**). Businesses are cautious because the outlook for demand is weak, and they have some excess capacity. Firms in the services sector are more likely to reduce investment spending than those in the goods sector.

On balance, firms expect to increase the level of employment over the next 12 months (**Chart 4**). Hiring intentions have improved in all sectors but continue to be relatively weak in some regions, notably, in Ontario.

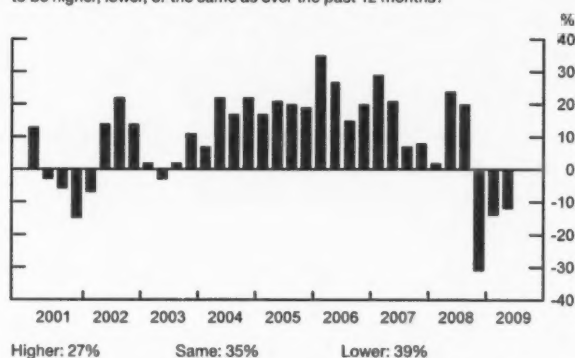
Pressures on Production Capacity

Reported pressures on production capacity remain subdued. The percentage of firms reporting that they would have difficulty meeting an unexpected increase in demand is roughly unchanged at an exceptionally low level (**Chart 5**). Some of these firms indicated that they had reduced production capacity over the past year as sales volumes decreased.

Chart 3: While intentions for investment in machinery and equipment remain weak . . .

Balance of opinion*

Over the next 12 months, is your firm's investment spending on M&E expected to be higher, lower, or the same as over the past 12 months?

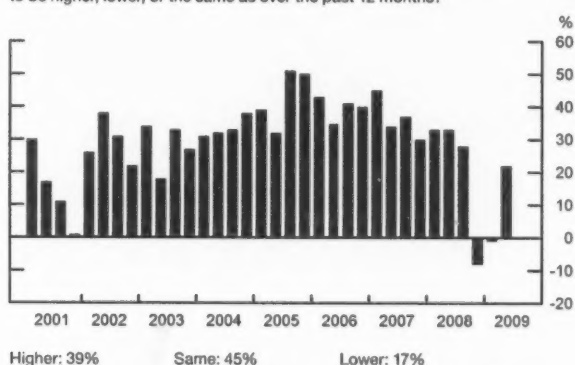


* Percentage of firms expecting greater investment minus the percentage expecting less investment

Chart 4: . . . hiring intentions have improved

Balance of opinion*

Over the next 12 months, is your firm's level of employment expected to be higher, lower, or the same as over the past 12 months?



* Percentage of firms expecting higher levels of employment minus the percentage expecting lower levels

Chart 5: Pressures on production capacity remain subdued . . .

How would you rate the current ability of your firm to meet an unexpected increase in demand?

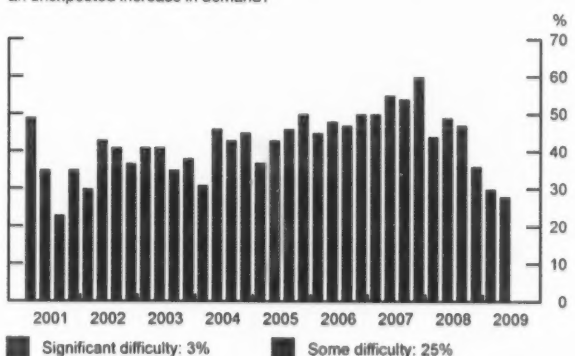
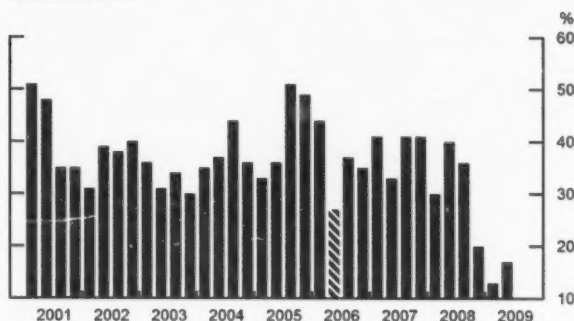


Chart 6: ... and reported labour shortages are low
Does your firm face any shortages of labour that restrict your ability to meet demand?

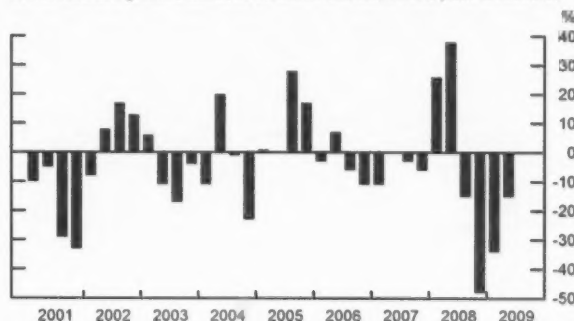


Yes: 17%

The summer 2006 results are not strictly comparable with those of the other surveys, owing to a difference in the interview process for that survey.

Chart 7: The growth of input prices is still expected to slow
Balance of opinion*

Over the next 12 months, are prices of products/services purchased expected to increase at a greater, lesser, or the same rate as over the past 12 months?



Greater: 30%

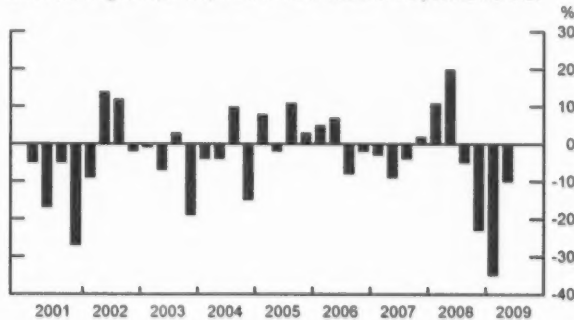
Same: 26%

Lesser: 45%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

Chart 8: Weak demand restrains firms from increasing output prices
Balance of opinion*

Over the next 12 months, are prices of products/services sold expected to increase at a greater, lesser, or the same rate as over the past 12 months?



Greater: 29%

Same: 33%

Lesser: 39%

* Percentage of firms expecting greater price increases minus the percentage expecting lesser price increases

The percentage of firms reporting that labour shortages are restricting their ability to meet demand changed only slightly and remains at a low level (**Chart 6**). A majority of respondents indicated that labour shortages were less intense than 12 months ago, because the demand for labour has declined during the recession.

Prices and Inflation

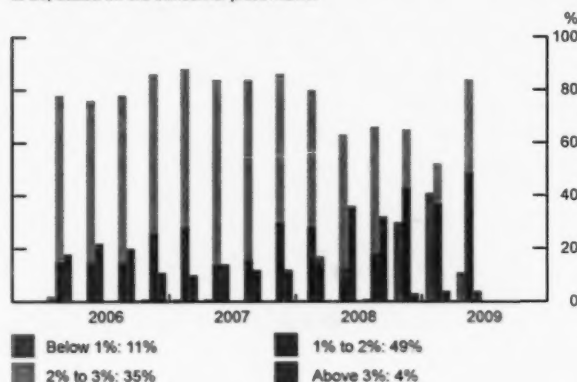
Firms continue to expect slower growth in input prices over the next 12 months (**Chart 7**), believing that weak economic conditions will deter suppliers from increasing prices. Only a few firms cited the recent appreciation of the Canadian dollar as a source of downward pressure on input prices. According to some respondents, however, commodity prices have bottomed out in the past few months, leading to higher expectations for input prices.

Although no longer at a record low, the balance of opinion on output prices remains negative, suggesting that firms continue to expect output prices to grow at a slower pace over the next 12 months (**Chart 8**), and many still anticipate price reductions. The weak demand environment, as well as the increased level of competition, are the main factors affecting expectations for output prices. Some firms plan to pass on recent declines in input prices to their customers.

Inflation expectations have moved up from the record low reached in the last quarter (**Chart 9**), and the vast majority of firms now expects total CPI inflation to be within the Bank's target range of 1 to 3 per cent for the next two years. Far fewer respondents than in the spring survey expect inflation to be below this range.

Chart 9: Inflation expectations appear to be well anchored

Over the next two years, what do you expect the annual rate of inflation to be, based on the consumer price index?



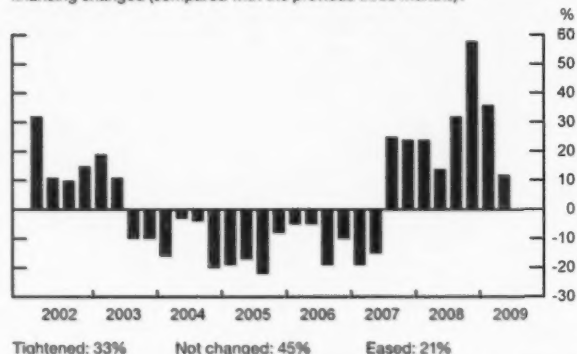
Credit Conditions

Firms indicating a tightening in the terms and conditions for obtaining financing are still more numerous than those reporting an easing over the past three months (**Chart 10**), but their number has declined compared with recent surveys. Businesses that source their financing from capital markets are more likely to cite an easing in credit conditions than other firms.

Chart 10: Fewer firms reported a tightening in credit conditions

Balance of opinion*

Over the past three months, how have the terms and conditions for obtaining financing changed (compared with the previous three months)?



* Percentage of firms reporting tightened minus percentage reporting eased. For this question, the balance of opinion excludes firms that responded "not applicable."

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